

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 EPG-02 DODE-00 EB-07 FEAE-00 FPC-01 H-01
INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04
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C O N F I D E N T I A L AMMAN 3599

E.O. 11652: GDS

TAGS: EAID, ENRG, JO, SA

SUBJECT: COST OF OIL TO JORDAN

REF: A) AMMAN 1443 (1976), B) AMMAN 2341, C) AMMAN A-40

1. IN RECENT CONVERSATION WITH EMBOFF, GOVERNOR OF JORDAN'S CENTRAL BANK MENTIONED THAT SAUDI ARABIA HAS THUS FAR AGREED TO ANNUAL \$40 MILLION SUBSIDY TO SUPPORT JORDAN'S IMPORTS OF CRUDE OIL VIA TAPLINE (REF A) ONLY FOR 1976 AND 1977. HE QUICKLY ADDED, HOWEVER, THAT HE HAS REASONABLE HOPE THAT SAUDIS CAN BE PERSUADED TO CONTINUE SUBSIDY.

2. IN JUNE 14 PRESS CONFERENCE, PRIME MINISTER BADRAN SAID THAT AT PRESENT GOJ SUBSIDY ON FUELS RUNS TO \$60 MILLION ANNUALLY (PRESUMABLY INCLUDING \$40 MILLION SAUDI SUBSIDY, WHICH HAS NEVER BEEN PUBLICLY ACKNOWLEDGED AS GRANT FOR THIS PURPOSE). ALTHOUGH WE HAVE LONG BEEN AWARE THAT GOJ WAS EXPENDING OWN RESOURCES TO SUBSIDIZE PETROLEUM PRODUCTS, THIS WAS FIRST OCCASION IN WHICH PRICE TAG HAS BEEN MENTIONED. AS DOMESTIC
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CONSUMPTION IS EXPECTED TO CONTINUE ITS RISE (ALLOWING FOR ESTIMATED SMUGGLING OUT OF JORDAN LAST YEAR -- REF B) -- AT A RECENT ANNUAL RATE OF ABOUT 10 PERCENT), EVEN MAINTENANCE OF SAUDI SUBSIDY IMPLIES INCREASING GOJ SUBSIDY IN ABSENCE OF RETAIL PRICE INCREASE. MINISTRY OF FINANCE OFFICIAL RECENTLY TOLD EMBOFF THAT GOJ HAS DECIDED TO RAISE RETAIL PRICE OF AT LEAST HIGH OCTANE

GASOLINE, AND BADRAN'S PUBLIC REFERENCE TO AMOUNT OF SUBSIDY MAY HAVE BEEN INTENDED TO PREPARE PUBLIC FOR ANNOUNCEMENT OF THIS DECISION.

3. JUST OVER ONE YEAR AGO, GOJ RAISED PRICE OF PREMIUM GASOLINE BY ONE-THIRD AND THAT OF OTHER PETROLEUM PRODUCTS BY BETWEEN 7 AND 26 PERCENT. AT THAT TIME, WHEN CONSUMERS WERE ALREADY COMPLAINING ABOUT RAGING INFLATION, PRICE INCREASES ADDED ANOTHER ITEM TO LIST OF PUBLIC COMPLAINTS ABOUT GOJ MANAGEMENT OF ECONOMY. INFLATION HAS CONTINUED AT WORRISOME RATE, AND THAT COMBINED WITH GOJ RECOLLECTION OF RIOTS IN EGYPT THAT FOLLOWED GOE PRICE INCREASES, ADDS IMPORTANT POLITICAL CONSIDERATION THAT MAY STILL HAVE TO BE MEASURED AGAINST ECONOMIC CASE FOR INCREASING PRICES. ALTHOUGH EARLIER 1977 INCREASES IN WATER AND ELECTRICITY RATES AND RECENT INCREASE IN EXCISE TAX ON CIGARETTES WERE RECEIVED REASONABLY WELL BY PUBLIC, THIS WILL NOT NECESSARILY BE TRUE IN CASE OF INCREASE IN FUEL PRICES.

4. INCIDENTALLY, FOR PURPOSES OF BALANCE OF PAYMENTS RECORDS, JORDAN USED SOMEWHAT PECULIAR DEVICE TO ACCOUNT FOR SETTLEMENT OF ITS DISPUTE WITH TAPLINE OVER PRICE JORDAN PAYS FOR CRUDE OIL. COSTS FOR CRUDE THROUGH 1974 REMAIN AS THEY WERE PREVIOUSLY RECORDED IN BALANCE OF PAYMENTS, I.E., AT ABOUT \$2 PER BARREL PRICE PREVAILING
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PRIOR TO 1973 OPEC PRICE INCREASE. SAUDI CONTRIBUTION OF \$116 MILLION THAT ENABLED JORDAN TO MAKE PAYMENTS TO TAPLINE WHICH ENDED DISPUTE ARE RECORDED AS 1975 LOAN (CREDIT IN CAPITAL ACCOUNT) TO GOJ AND SUBSEQUENT REPAYMENT (DEBIT) IN 1976. PRIMARILY FOR THIS REASON, JORDAN'S BASIC BALANCE IN 1975 SHOWS UNUSUALLY HIGH SURPLUS IN 1975 AND UNUSUALLY LOW SURPLUS IN 1976 (REF C).
PICKERING

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